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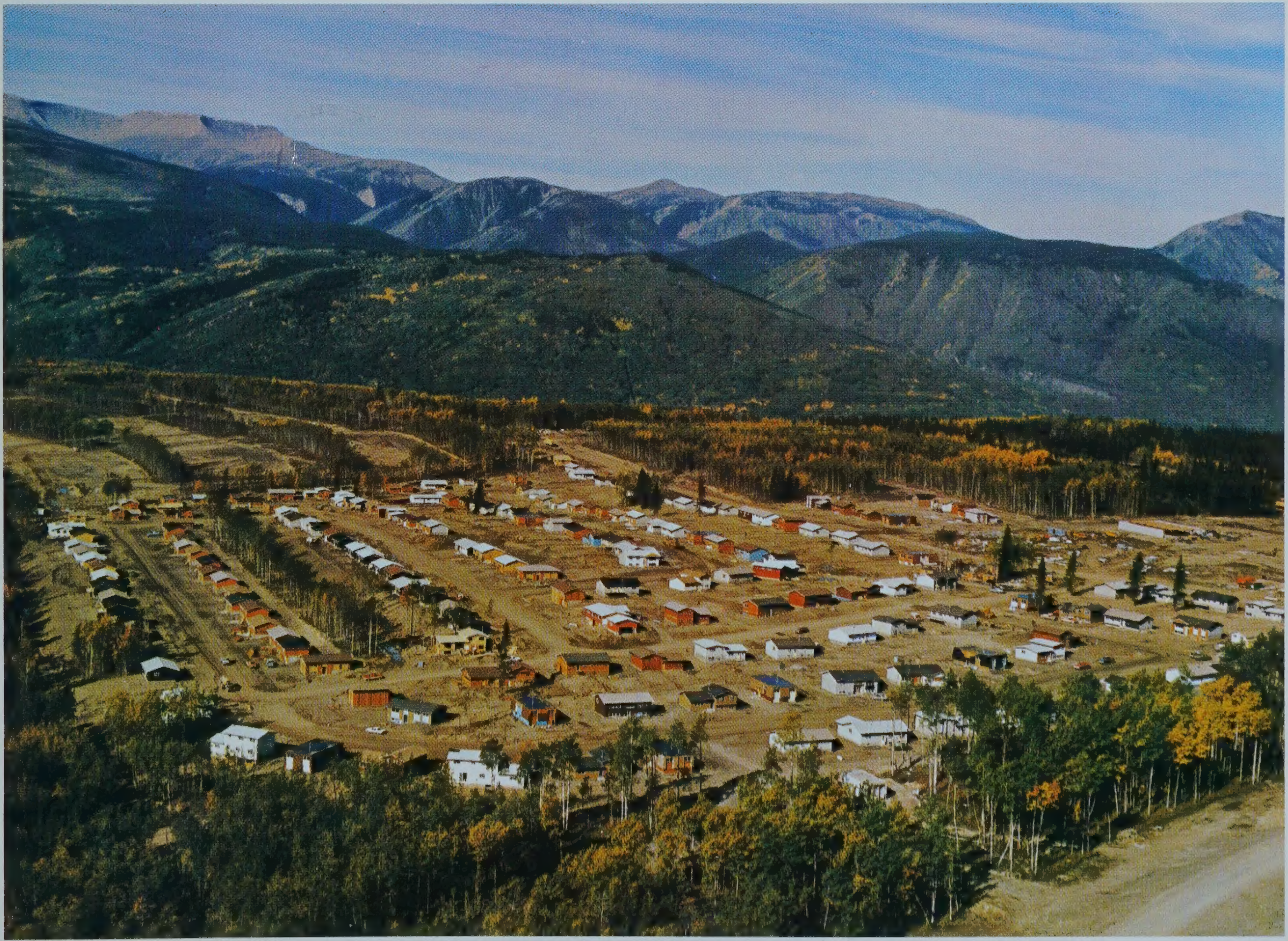
GREAT NORTHERN GAS UTILITIES LTD.

ANNUAL REPORT 1969



GREAT NORTHERN GAS UTILITIES LTD. and subsidiaries

Board of Directors

FERNAND E. CHENU
Brussels, Belgium

E. JACQUES COURTOIS, Q.C.
Montreal, Quebec

MARC H. DHAVERNAS
Montreal, Quebec

MICHAEL H. FINNELL
Calgary, Alberta

RAYMOND A. RICH
Chairman of the Board

ANTHONY C. ROONEY
President

WILLIAM SPARK
Calgary, Alberta

CHARLES P. WILLIAMS
Tulsa, Oklahoma

DAVID R. WILLIAMS, JR.
Tulsa, Oklahoma

Officers

RAYMOND A. RICH	Chairman of the Board
ANTHONY C. ROONEY	President
ROBERT C. WHARTON	Vice-President, Operations
ERNEST W. STRAUS	Vice-President, Administration and Treasurer
WILLIAM A. TROUGHTON	Secretary

Subsidiary Companies

Plains-Western Gas & Electric Co. Ltd.
Operating in Alberta, British Columbia and Yellowknife, N.W.T.

Plains-Western Gas (Manitoba) Ltd.
Operating in Manitoba

Rockgas Utilities Ltd.
Operating in British Columbia

Fort St. John Petroleums Ltd.
Operating in British Columbia and Alberta

Transfer Agents and Registrar

Montreal Trust Company,

Montreal, Toronto and Calgary

Trustee for Debentures

Montreal Trust Company,

Montreal, Toronto, Edmonton and Calgary

Head Office

1870 Elveden House, Calgary, Alberta

COVER:

Early construction in the New Town of Grande Cache, Alberta, 230 miles north-west of Edmonton. This town for which the Company was granted a gas franchise was incorporated to serve the McIntyre Porcupine coal mine 9 miles to the north.

Highlights

	1969	1968	1967	1966	1965
Utility Customers at Year End	29,519	25,774	23,654	24,302	22,359
Natural Gas Sales (Mcf)	12,173,252	10,525,718	8,384,447	6,267,402	5,827,574
Electricity (KWH)	20,883,105	17,080,792	13,737,895	11,297,812	10,603,028
Operating Revenue (note)	$ 8,052,468	$ 8,757,703	$12,014,753	$10,894,582	$ 9,690,549
Other Revenue	$ 1,029,844	$ 931,035	$ 240,711	$ 167,337	$ 178,713
Cash Flow	$ 2,084,159	$ 1,963,795	$ 2,146,588	$ 1,910,257	$ 1,744,534
Net Income	$ 1,265,601	$ 1,244,204	$ 1,070,344	$ 971,044	$ 909,611
Working Capital					
(Exclusive of bank borrowings)	$ 7,070,249	$ 6,828,879	$ 8,015,380	$ 3,326,234	$ 1,190,014
Long Term Debt					
(Inclusive of bank borrowings)	$13,959,071	$13,022,793	$12,756,625	$10,837,437	$10,997,250
Annual Additions to Plant					
Utility	$ 2,437,371	$ 3,565,414	$ 1,544,007	$ 1,297,522	$ 894,424
Other	$ 110,647	$ 3,203,708	$ 1,049,544	$ 1,243,208	$ 1,424,375
Gross Plant					
Utility	$20,600,907	$18,294,141	$14,868,190	$15,800,175	$14,589,455
Other	$ 2,994,355	$ 2,891,395	$ 9,647,882	$ 8,778,603	$ 8,487,625
Miles of Pipeline					
(Transmission and Distribution)	2,240	1,711	1,097	1,006	937

Note: After giving effect to the sale of the propane operations as of May 31, 1968 and the acquisition of Fort St. John Petroleums Ltd. December 27, 1968.

The City of Yellowknife, the Capital of the Northwest Territories, where the Company holds a franchise for the distribution of electricity.

To the Shareholders:

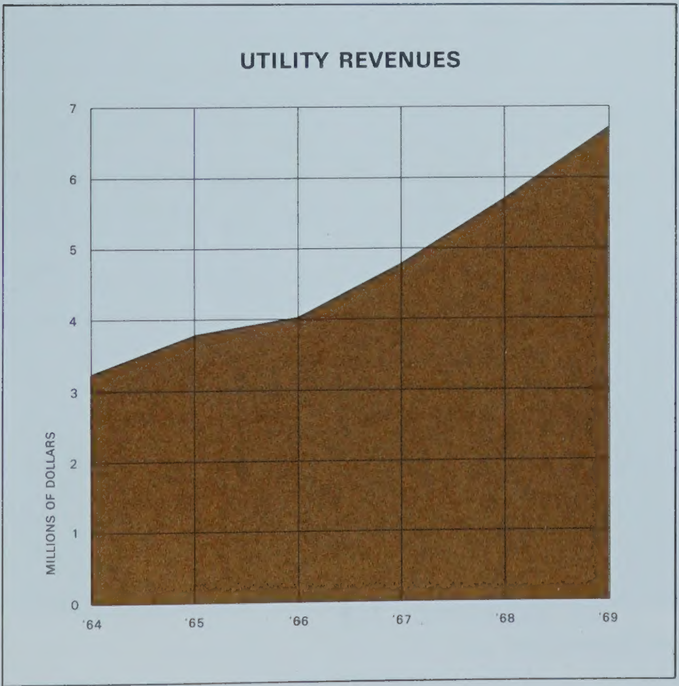
During 1969 the trend by the Company towards increased earnings continued with net income, cash flow and sales volumes exceeding those of 1968. Net income amounted to $1,265,601 compared to $1,244,204 for 1968, an increase of 1.7%.

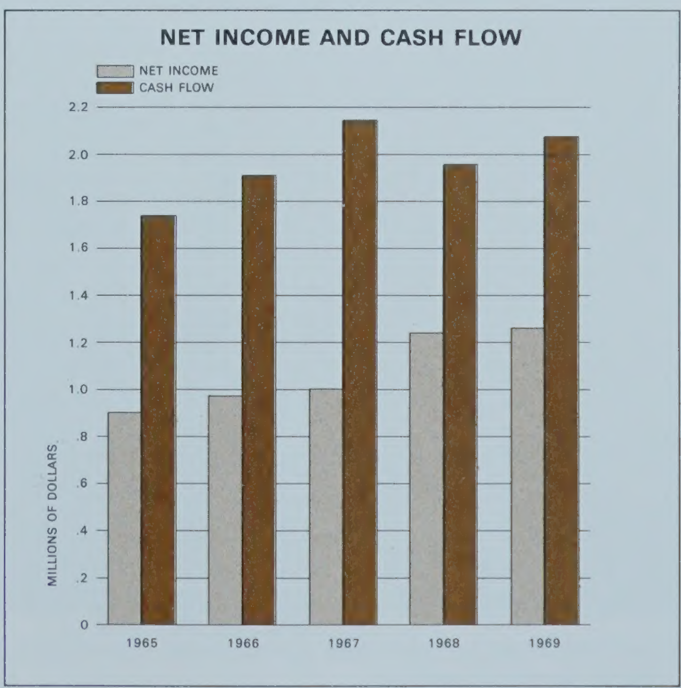
Operating revenues amounted to $8,052,468, a decrease of $705,235 or 8.1% from the preceding year. This decrease resulted from the sale during 1968 of the Company's propane operations and was offset by an increase in other income. Other income increased by $98,809 or 10.6% to $1,029,844. After preferred dividends of $178,046 earnings attributable to common shares amounted to $1,087,555 compared to $1,066,342 for 1968.

The foregoing results reflect increases over 1968 in the volumes of gas and electricity sold of 15.7% and 22.3% respectively. These volumes were attained although the attachment from new construction was below expectations because of the slowdown of construction in the areas served. Operating expenses were controlled to the fullest extent possible and at the same time efficiency and customer service was maintained at the usual high level.

Working capital as at December 31, 1969 exclusive of bank loans was $7,070,249 compared to $6,828,879 at the end of the preceding year. Funds provided during the year from operations were $2,084,159 compared to $1,963,795 for the year 1968. Other principal sources of funds were $691,501 from contributions in aid of construction; the issue of notes and preferred shares for $217,125 in connection with an acquisition; net proceeds from the sale of a U.S. note, $4,205,000 and bank loans of $740,000.

Although the assets and liabilities of Fort St. John Petroleums Ltd. were consolidated with those of the Company as at the end of the preceding year, 1969 is the first year to reflect the earnings of that company with those of Great Northern. The Company owns 54% of the outstanding common shares of Fort St. John Petroleums Ltd. That company, in addition to its interest in oil and gas rights in the Provinces of British Columbia and Alberta, owns a 92% interest in Vancouver Island Gas Company Ltd., a butane-air gas utility operating in Nanaimo, B.C. and a 100% interest in Vigas Propane Limited operating on Vancouver Island. Operating revenues and expenses for 1969 include those of Vigas Propane for 12 months and 1968 includes those of the Company's larger propane operations for five months, which operations were sold during 1968. Utility revenues for 1969 amounted to $6,120,231 compared to $5,592,804 for 1968, an increase of 9.4%.





During the year the Company exchanged its holdings of $5,250,000 principal amount of 7¾% income debentures of Rockgas Propane Ltd. for 7¾% preferred shares of Consolidated Hydrocarbons Limited, the parent company of Rockgas Propane Ltd., with a par value of the same amount.

Also the Company purchased $112,500 principal amount of its debentures and 9,345 of the Company's Series A preferred shares for purposes of the sinking fund for the debentures and the purchase fund for the outstanding preferred shares respectively.

Marketing

Although the Company attached as customers substantially all new construction, this phase of the business was not up to expectations because of the general slowdown of residential construction in the areas of operation. This situation was offset to a degree by the attachment of a greater number of conversion customers, new industrial loads and the up-grading of some industrial accounts.

In addition to the customers of Vancouver Island Gas Company Ltd., acquired at the beginning of the year, the Company purchased the assets, franchises and customers of South Eastern Utilities Ltd. during the year. The Company has also been granted franchises for the Towns of Grande Cache and High Level in the Province of Alberta and for the Town of Emerson in the Province of Manitoba.

In the Province of Alberta the Company has pursued its program of rural gasification and has added 8 new areas including 5 with the acquisition of South Eastern Utilities. The rural areas previously established were also extended during the year. The Company now holds franchises or permits to serve gas to 38 cities or towns, 24 villages or hamlets and 11 farm areas. It also has the electricity franchise for the City of Yellowknife, the seat of Government for the Northwest Territories.

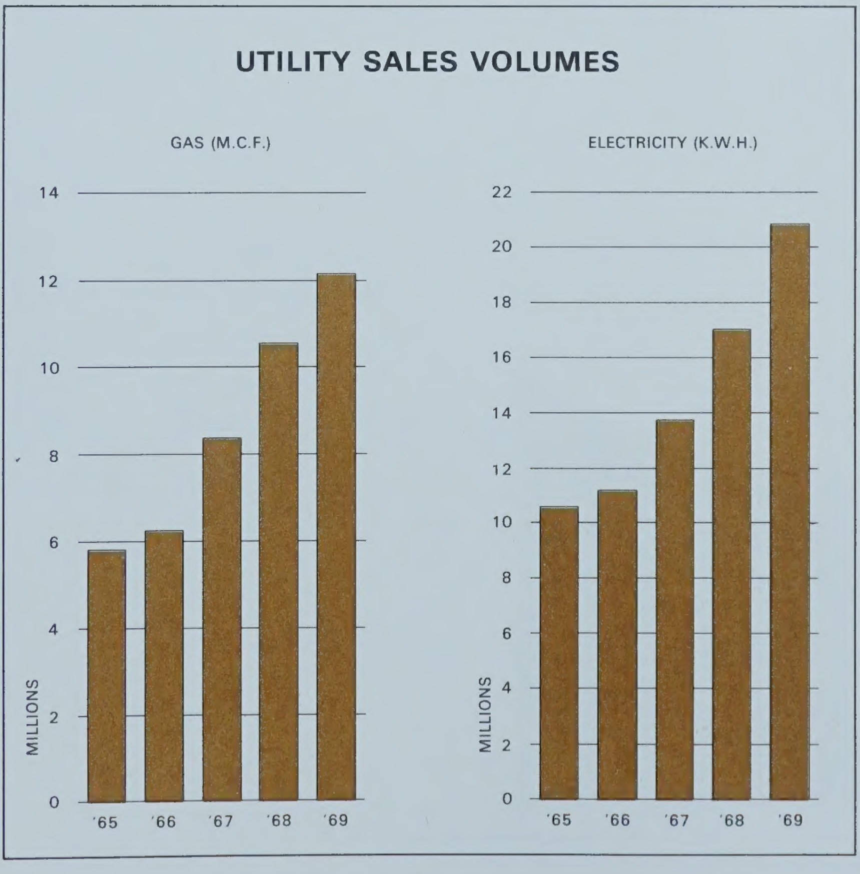
Supply

The supply of natural gas remains relatively unchanged with gas for the Provinces of Alberta and British Columbia being purchased from pipeline companies, producers at the well head and gathering systems. The Company operates 12 wells owned by others and owns a further 6 wells which it uses as a stand-by source for peak demand in two towns. In Manitoba natural gas is supplied from a pipeline company under a long term demand commodity contract and the Company operates a propane-air plant for peak shaving purposes. Butane and propane for the operations on Vancouver Island are purchased under short term contracts from producers. In the City of Yellowknife electricity is purchased from Northern Canada Power Commission. With the sources of supply under contract the Company does not anticipate any problems in being able to purchase its requirements in the foreseeable future.

Irrigation pumps in operation in southern Alberta powered by natural gas supplied by the Company.

Pipeline construction in the New Town of Grande Cache, Alberta, served by the Company.

Construction by the Company of a 33,000 volt sub-station in Yellowknife, Northwest Territories.



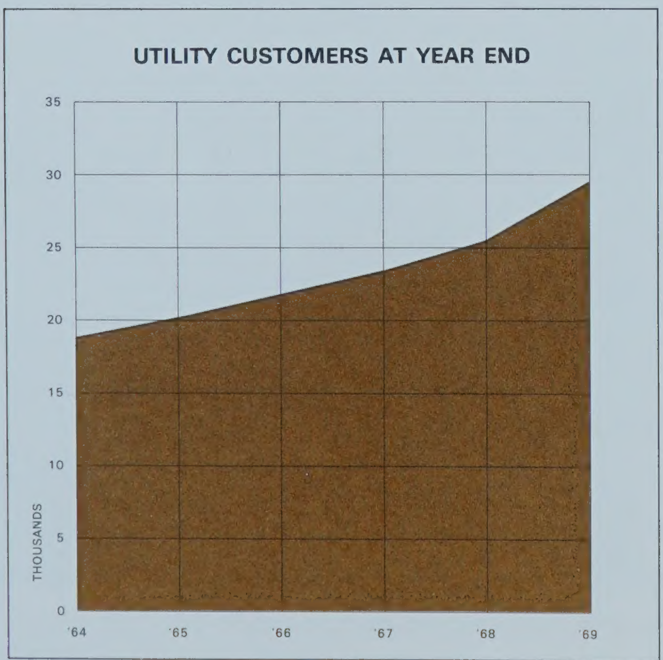
Capital Expenditures

Capital expenditures during the year amounted to \$2,548,018. The three largest items of capital expenditures were for the acquisition of the systems and franchises of South Eastern Utilities, the construction of the system of the New Town of Grande Cache in Alberta and the rural gasification program. There were also the usual extensions and additions to existing systems including the plastic rural systems. In all, capital expenditures accounted for 15 miles of transmission line, 19 miles of distribution pipe, 21 miles of service lines and 474 miles of plastic pipe. In the City of Yellowknife, the electrical system was improved and expanded with an increase in meters of 18%. This increase was due primarily to the recent rapid growth of that city which has every indication of continuing.

Future

The capital expenditure projections for 1970 amount to \$1,878,000 with Alberta and Manitoba accounting for the major portion.

In Alberta, in addition to extensions for normal growth, the rural systems will be expanded and new rural areas established. Also the system for High Level will be constructed and the Grande Cache system will be converted to natural gas.



In Manitoba the capital expenditures will be principally for transmission and distribution lines and services for normal additions to the communities now served. Also the system for the recently acquired franchise for the Town of Emerson will be constructed.

With the sale by the Company in January, 1969 of a \$4,000,000 (U.S.) 20 year note at 7¼% interest and with an established line of bank credit the Company does not contemplate having to market any new issue of securities to meet capital requirements during the present year.

We look forward to the future with optimism having regard to the past growth of earnings of the Company and will continue to seek out opportunities for expansion and investment.

The results of the past year set out in this report reflect the dedication of the employees to their respective responsibilities to the Company and its customers. On behalf of the Directors we express their sincere appreciation to the employees for their continued efficient and loyal service.

Chairman of the Board

Anthony C. Rooney

President

Calgary, Alberta
April 28, 1970

Consolidated Statement of Income and Retained Earnings

YEARS ENDED DECEMBER 31, 1969 AND 1968

	1969	1968
Revenue:		
Operating	$8,052,468	$8,757,703
Income from investment in affiliate	405,295	319,913
Other (including investment income of $472,539; 1968 – $402,912)	624,549	611,122
	9,082,312	9,688,738
Expenses:		
Cost of sales	3,601,222	4,121,066
Operating, selling and administrative expenses	2,169,744	2,268,408
Interest (including interest on long term debt of $838,528; 1968 – $526,477)	856,825	746,093
Depreciation	616,159	714,124
Depletion	31,230	18,476
Minority interest in subsidiaries	55,809	—
	7,330,989	7,868,167
Income before income taxes	1,751,323	1,820,571
Income taxes (Note 6)	485,722	576,367
Net income for the year before extraordinary item	1,265,601	1,244,204
Extraordinary item – recovery of development costs written off in prior years	—	146,452
Net income for the year after extraordinary item	1,265,601	1,390,656
Retained earnings, beginning of year	4,034,999	3,456,030
	5,300,600	4,846,686
Dividends paid: preferred	178,046	177,862
common	657,300	633,825
	835,346	811,687
Retained earnings, end of year	$4,465,254	$4,034,999

(See accompanying notes)

Consolidated Balance Sheet DECEMBER 31, 1969 AND 1968

ASSETS

	1969	1968
Fixed at Cost (Note 2):		
Transmission and distribution systems	$17,238,212	$15,746,822
Land, buildings and equipment	2,065,011	1,884,144
Oil and gas properties	1,619,587	1,612,249
Customers' installations	1,077,655	1,039,025
	22,000,465	20,282,240
Less: accumulated depreciation	5,051,572	4,515,569
accumulated depletion	696,849	665,619
	5,748,421	5,181,188
	16,252,044	15,101,052
Investments at cost :		
7¾% preferred shares of affiliate (1968 - income debentures)	5,250,000	5,250,000
Other	38,905	60,856
	5,288,905	5,310,856
Current:		
Cash	128,380	61,782
Short term investments	5,973,588	5,864,000
Accounts receivable –		
Trade	1,626,878	1,647,536
Affiliate	55,901	146,712
Inventories at lower of cost or net realizable value	616,189	468,506
Prepaid expenses	34,349	29,306
	8,435,285	8,217,842
Other:		
Deferred charges less amounts written off	185,412	88,562
Cost of shares of subsidiaries over net book value at dates of purchase	278,781	272,329
	464,193	360,891
	$30,440,427	$28,990,641

(See acco

LIABILITIES

	1969	1968
Shareholders' Equity:		
Capital (Note 3)		
Authorized:		
250,000 preferred shares of a par value of $25 each, issuable in series		
5,000,000 common shares of no par value		
Outstanding:		
114,200 6% cumulative redeemable preferred shares, Series A (1968 - 117,500 shares)	$ 2,855,000	$ 2,937,500
3,130,000 common shares	6,034,970	6,034,970
Retained earnings (Notes 3 and 4)	4,465,254	4,034,999
	13,355,224	13,007,469
Minority interest in subsidiaries:		
Capital	810,437	810,437
Surplus	575,675	519,589
	1,386,112	1,330,026
Long term debt (Note 5)	13,219,071	9,037,793
Customers' refundable deposits	286,976	241,390
Deferred income taxes (Note 6)	88,008	—
Current:		
Bank loan	740,000	3,085,000
Bankers' acceptances	—	900,000
Accounts payable and accrued charges	1,199,517	1,024,058
Income taxes payable (Note 6)	107,319	329,905
Current instalments on long term debt	58,200	35,000
	2,105,036	5,373,963
	$30,440,427	$28,990,641

On behalf of the Board:

R. A. RICH, Director

ANTHONY C. ROONEY, Director

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Consolidated Statement of Source and Application of Funds

YEARS ENDED DECEMBER 31, 1969 AND 1968

	1969	1968
Funds were provided from:		
Operations –		
Net income for the year	$1,265,601	$ 1,244,204
Add: depreciation and depletion	647,389	732,600
deferred income taxes	88,008	—
other non-cash expense (income)	83,161	(13,009)
Total cash flow from operations	2,084,159	1,963,795
Disposal of fixed assets	65,051	75,627
Preferred shares issued	151,125	—
Additional long term debt	4,354,750	—
Sale of investments	—	128,500
Repayment of 7¾% income debentures	—	1,790,000
Other	42,436	59,221
	6,697,521	4,017,143
Funds were applied to:		
Purchase fixed assets	2,548,018	2,647,388
Less customer contributions	691,501	483,538
	1,856,517	2,163,850
Investment in Fort St. John Petroleums Ltd.	6,174	1,395,141
Redemption of preferred shares	233,625	57,500
Reduction of long term debt	173,472	122,313
Payment of dividends	835,346	811,687
Financing and development costs	106,017	(145,595)
	3,211,151	4,404,896
	3,486,370	(387,753)
Reduction in working capital resulting from sale of propane operations	—	(878,748)
Increase (decrease) in working capital	$3,486,370	$(1,266,501)

(See accompanying notes)

Notes to the Consolidated Financial Statements DECEMBER 31, 1969

1. BASIS OF THE FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of Great Northern Gas Utilities Ltd. and all its subsidiaries.

Certain of the 1968 accounts have been reclassified to conform with the 1969 classification of accounts.

2. FIXED ASSETS

Depreciation of fixed assets, other than oil and gas properties and equipment, is provided on a straight line basis at rates varying from 2% to 20% which are designed to amortize the cost of the assets over their estimated useful lives.

All costs related to the acquisition of, exploration for and development of oil and gas properties, whether productive or unproductive, are capitalized and depleted on the composite unit of production method based on total estimated reserves of oil and gas.

Effective January 1, 1969, contributions received from customers for the construction of transmission lines and distribution systems are credited to this asset classification. In prior years, such contributions were classified as contributed surplus. The 1968 accounts have been reclassified for comparative purposes.

3. CAPITAL

During the year 6,045 Series A preferred shares were issued at a value of $151,125 as partial consideration for the acquisition of certain fixed assets.

The redemption provisions of the preferred shares require the company to expend $60,000 in each year, in purchase for cancellation of Series A preferred shares, if available on the open market at a price not exceeding $24.50 per share. This requirement is cumulative to a maximum of $120,000 in any year. The Company has satisfied its obligation to December 31, 1972 with respect to this redemption provision. In addition, the Series A preferred shares may be redeemed at any time at a price of $26.25 per share plus accrued and unpaid dividends.

To December 31, 1969 11,845 Series A preferred shares of an aggregate par value of $296,125 have been redeemed (9,345 shares during 1969). Accordingly, retained earnings at December 31, 1969 includes $296,125 designated as "capital surplus" under the provisions of the Canada Corporations Act.

4. DIVIDENDS

Provisions attaching to the Series A preferred shares and the 7¼% promissory note contain restrictions as to the declaration and payment of cash dividends, the most restrictive of which limits the payment of such dividends to an amount which would not exceed $1,700,000 at December 31, 1969.

5. LONG TERM DEBT	1969	1968
6% sinking fund debentures, Series A due January 15, 1985	$8,601,000	$8,713,500
7¼% promissory note, due 1989 ($4,000,000 U.S.)	4,288,750	—
6% sinking fund bonds, Series A of a subsidiary, due October 15, 1976	321,521	359,293
7% notes payable	66,000	—
	13,277,271	9,072,793
Less instalments included in current liabilities	58,200	35,000
	$13,219,071	$9,037,793

Long term debt repayments will amount to $242,088 in 1971 and $281,088 in each of the years 1972 to 1974.

Notes to the Consolidated Financial Statements (continued)

6. INCOME TAXES

For income tax purposes the companies are entitled to claim capital cost allowances in excess of the related depreciation reflected in the accounts. In the case of certain regulated subsidiaries, income taxes are required to be reported on an actual (payable) basis for rate purposes and accordingly, deferred income taxes were not provided in the accounts of such companies during 1969 with respect to claiming capital cost allowances of $105,000 in excess of depreciation reflected in the accounts. In the case of the remaining companies where capital cost allowances exceeded depreciation reflected in the accounts, deferred income taxes of $88,008 were provided in 1969.

In addition, certain subsidiaries engaged in oil and gas operations claimed drilling, exploration and lease acquisition costs for income tax purposes of $157,000 in excess of the related depletion reflected in the accounts. The companies, in common with many other companies in the Canadian oil and gas industry, believe that it is not appropriate to provide for deferred income taxes with respect to claims for drilling, exploration and lease acquisition costs and accordingly, no provision has been made for timing differences involving such costs.

If the tax allocation basis of accounting had been followed for all timing differences between taxable income and recorded income, the income tax provision would have increased and net income for the year would have been decreased by $130,000 ($105,000 in 1968).

The accumulated unrecorded income tax reductions related to all timing differences in the current and prior years amounted to approximately $1,152,000 at December 31, 1969. Accumulated expenditures remain to be carried forward and applied against future taxable income as follows:

	1969	1968
Drilling, exploration and property acquisition costs	$ 179,000	$ 170,000
Undepreciated capital cost	12,958,000	12,105,000

7. OTHER STATUTORY INFORMATION

The total remuneration paid to the directors and senior officers of the company during 1969 amounted to $140,200 which includes $89,300 paid to directors in their capacity as directors, officers and employees.

Auditors' Report

To the Shareholders of
GREAT NORTHERN GAS UTILITIES LTD.:

We have examined the consolidated balance sheet of Great Northern Gas Utilities Ltd. and its subsidiaries as at December 31, 1969 and consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
March 6, 1970

CLARKSON, GORDON & CO.
Chartered Accountants